

Mechanisms For Attracting Foreign Investment To Free Economic Zones And Supporting Them Through Taxes

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Abstract. The article analyzes the theoretical and practical aspects of attracting foreign investment to free economic zones and supporting them through taxes. Based on international and local experience, fiscal factors affecting investment flows in free economic zones, the effectiveness of tax incentives, and institutional mechanisms are studied. Based on data for 2024, a statistical analysis of investment sources and their share in the economy is conducted, and proposals are developed to improve the investment climate. The results of the study substantiate the importance of tax policy stability, flexibility of incentives, and a diversified financing system in attracting foreign capital.

Key words: Free economic zones, foreign investments, tax incentives, fiscal policy, investment climate, public-private partnerships, investment flows, diversification.

Introduction. In today's conditions of globalization and economic integration, countries are actively seeking to attract foreign investment in order to develop their economies, modernize industry and increase export potential. In particular, free economic zones (FEZs) are considered an important tool in this process, through which a simplified tax regime, customs privileges and infrastructure facilities are created for investors. World experience shows that tax breaks and a stable fiscal policy have a positive impact on the long-term investment decisions of foreign investors. In this regard, the issue of improving the mechanisms for attracting foreign investment and stimulating them through taxes within the framework of the activities of FEZs is of not only economic but also strategic importance.

In the Republic of Uzbekistan, in recent years, systemic reforms have been carried out aimed at improving the investment climate through EITs. However, in practice, there is a need to determine the effectiveness of tax incentives in attracting foreign investors, and to further improve the institutional and fiscal mechanisms associated with them. Therefore, the role of tax policy in increasing investment flows to EITs, a scientific assessment of their support mechanisms, and a deep analysis of fiscal instruments affecting the volume and quality of investments determine the relevance of this topic. This issue is relevant for increasing the industrial potential of Uzbekistan, expanding the production of competitive products, and ensuring economic stability.

Analysis of literature on the topic.

International scientific research on mechanisms for attracting foreign investment and supporting it through taxes has formed an important methodological basis for the development of free economic zones (FEZs).

For example, Paul Krugman's work on international trade and regional economic integration explains the impact of free trade zones on foreign investment flows in terms of regional competition, while Jeffrey Sachs has demonstrated the close

relationship between tax breaks and infrastructure development in developing countries using empirical models on a global scale.

John DunningThe research on the eclectic paradigm serves to scientifically substantiate the mechanisms of application in EITs based on the OLI (Ownership-Location-Internalization) model of foreign investment flows. Also, the work conducted by James Zhan (UNCTAD) analyzes the role of free economic zones in international investment policy and the effectiveness of their fiscal stimulus measures.

In local scientific literature, R. Gulyamov scientifically substantiated the prospects for using financial instruments in free economic zones and the flexibility of tax mechanisms for attracting foreign investment in national conditions.

The work of these scientists, by comparing foreign and local experience, creates a scientific basis for developing conceptual and practical proposals for attracting foreign investment to free economic zones in Uzbekistan and improving tax support mechanisms.

Analysis and discussion of results.

Attracting investments in the Uzbek economy and analyzing their structural structure is one of the main factors determining the country's economic stability and development dynamics.

At the end of 2024, the volume of investments in fixed assets amounted to 493.7 trillion soums. This figure represents an increase of 127.6% compared to the previous year and indicates a consistent continuation of economic activity. Below, the sources of these investments and their impact on economic efficiency are scientifically analyzed. (Figure 1)

In 2024, 75.9 percent (374.7 trillion soums) of total investments in fixed assets accounted for the share of attracted funds. This indicator indicates the formation of strong cooperation in investment activity between external and domestic loans, funds allocated under state guarantees, commercial banks, international financial institutions, and the private sector.

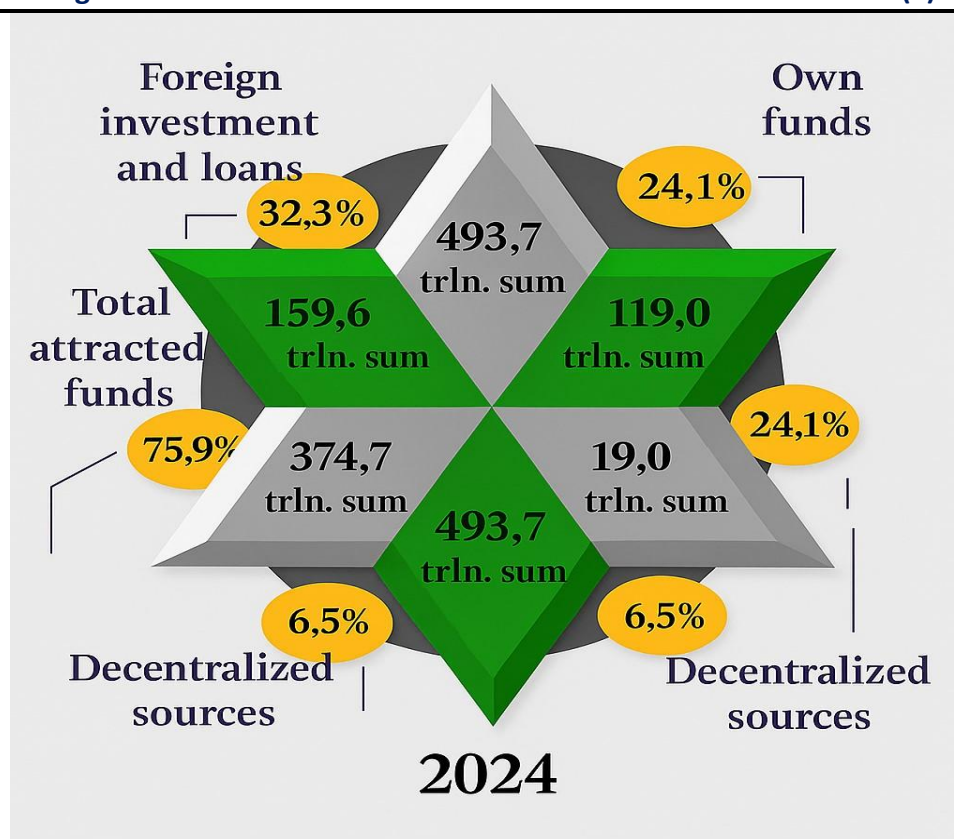


Figure 1. Total volume of investments in fixed capital, trillion soums¹

In particular, the share of foreign investments and loans is 32.3% (159.6 trillion soums), which indicates that Uzbekistan is strengthening its status as a reliable partner in the global investment arena. This process can be assessed as the result of reforms such as Uzbekistan's openness to foreign investments, liberalization of legislation, and guaranteeing the rights of investors.

The above figures also serve to facilitate international capital flows, technological transfer, and the import of high-value-added products into the country, which creates the necessary conditions for strengthening competitiveness and accelerating economic growth.

In 2024, 24.1 percent of investments in the economy, or 119.0 trillion soums, were made at the expense of own funds. This indicator indicates that the potential for domestic capital accumulation in the economy is increasing, and large and medium-sized businesses are seeking to reinvest part of their profits.

In addition, the share of equity capital indicates that the level of financial autonomy and independence in the economy is increasing, and the capital supply chain in the private sector is achieving stability through internal sources.

The figure shows two categories of decentralized sources, each accounting for 6.5% (19.0 trillion soums). Their combined share is 13%. This indicator shows that investment activity is also actively implemented through sources outside the central government - namely, local budgets, mahalla and public institutions, and private initiatives.

¹www.stat.uz - Information from the National Statistics Committee of the Republic of Uzbekistan.

This trend implies increasing economic autonomy in regions, public-private partnership mechanisms, and attracting investment in local innovative and infrastructure projects without state participation. These sources are important as drivers of local development, playing an important role in equalizing economic activity across regions.

According to the results of the analysis, the following conclusions can be drawn:

1. In 2024, investment processes in Uzbekistan are being carried out in a multi-source, diversified and balanced manner. This serves as a solid foundation for ensuring macroeconomic stability in the country and accelerating industrial modernization.

2. The high share of foreign investments and loans indicates Uzbekistan's integration with global investment markets and the confidence of international financial institutions.

3. The stability of the equity ratio indicates increasing domestic economic activity, the earning potential of enterprises, and financial stability.

4. Investments made through decentralized sources, on the other hand, mean that local initiatives are being supported and resources are being channeled from the center to remote areas.

In general, this form of investment structure serves strategic goals such as modernization of socio-economic infrastructure, expansion of high-tech production, and improvement of regional prosperity.²

The structure of sources of public investment in the Republic of Uzbekistan and their share in total investments as of 2024 are emerging as one of the most important economic indicators. Based on the graphical data, the following scientific analysis can be made.

The volume of foreign loans amounted to 1.5 trillion soums, which is 10% of total investments. The growth rate is 10%, which is the result of active cooperation with foreign financial institutions and donor countries.

This source is widely used mainly in financing large infrastructure projects, especially in the energy, transport, agriculture and healthcare sectors. Also, such funds are often attracted as low-interest or preferential loans and are guaranteed by the state. As a result, external financial resources that support economic growth enrich the national investment climate.

The funds allocated from the republican budget also amount to 1.5 trillion soums, which is characterized by a growth rate of 95.1%. This indicates a sharp increase in the volume of investments implemented through the state budget.

These investments are often directed to social sectors - education, healthcare, road construction, housing programs, etc. Within the framework of the centralized financing model, their importance is incomparable and occupies an important place in the strategy of socially oriented development of the economy. The volume of investments directed through this source is 0.2–0.3 trillion soums, which accounts for up to 3% of total investments. It is noteworthy that the growth rate of these funds ranges from 25% to 220%, which indicates a sharp increase in investment activity in this area.

The development of water infrastructure is of strategic importance for public health, environmental sustainability and quality of life. This activation of the Fund's resources demonstrates the government's political will to improve drinking water and

²www.stat.uz - Information from the National Statistics Committee of the Republic of Uzbekistan.

sanitation services. Support from the UN and other international organizations also plays an important role in this regard.

According to the research results, the following can be stated:

1. In 2024, foreign loans under state guarantees and funds allocated from the republican budget will maintain a stable and significant share in total investments. This confirms the state's financial stability and level of external credibility.

2. Investment activity in the development of water supply and sewage systems has shown positive growth, which is creating the foundation for the modernization of social infrastructure.

3. The data reflected in the sources — foreign loans, the state budget, and sectoral funds — are the practical result of the policy of diversifying and targeting investments in Uzbekistan.

4. These funding sources are aligned with the priorities of the national development strategy and serve economic growth, quality of social services, and sustainability..

The volume of investments attracted by enterprises amounted to 17.3 trillion soums, which accounts for 34.6% of total investments. This indicator is characterized by an increase of 148.6%. This indicates that enterprises are re-attracting their own funds as investments in the development of the economy.

Such internal reinvestment processes indicate increasing stability of the private sector, the formation of efficient mechanisms of capital circulation. In addition, this trend plays an important role in expanding local production capacities, technological innovation, and reducing product costs.

The volume of funds generated through investment activities of the population amounted to 4.1 trillion soums, which is 8.1% of total investments, and the growth rate was 83.9%. This is being implemented through citizens' savings, funds directed to housing construction, and small entrepreneurship.

This situation indicates that the financial literacy of the population is increasing, and the level of ownership of economic resources is increasing. In particular, these resources are being attracted to the economy through the housing market and consumer loans, which have become a sustainable source of domestic demand.

The volume of foreign direct investment amounted to 7.9 trillion soums, accounting for 15.9% of total investments, and the growth rate was 151.7%. This indicator is interpreted as the result of a favorable environment created for foreign investors, tax incentives, legal guarantees, and liberalized economic policies.

Such investments bring not only the flow of financial resources, but also intellectual and management capital, advanced technologies, and innovations. This creates additional opportunities for expanding the production of export-oriented products and entering the international market.

Loans allocated by commercial banks and other financial institutions amounted to 5.3 trillion soums, their share in total investments was 10.6%, and the growth rate was 95.9%. This indicates the increasing influence of financial intermediation services on the real sector of the economy.

Financing through banks facilitates access to investment resources for small and medium-sized businesses, while also stimulating economic activity. These loans are often used to upgrade working capital, production equipment, and service infrastructure.

The volume of this source is 14.3 trillion soums, its share in total investments is 28.5%, and the growth rate is 150.5%. This refers to investments attracted directly without government guarantees and is formed mainly on the initiative of private foreign enterprises, funds and investors.

Their growth demonstrates that Uzbekistan is seen as a reliable and open market by foreign investors. Moreover, this type of investment develops rapidly in an environment of low political risks and strong economic liberalization.

Conclusions And Suggestions:

In conclusion, the distribution of investments by economic activity in 2024 reflects the country's strategy of industrialization, relying on export-oriented production. The leading position of processing, agriculture and other types of activities indicates the reliance on the real sector of the economy. At the same time, increased investments in healthcare, information technology and water infrastructure will be a decisive factor in accelerating social stability and digital transformation in the future.

According to the research, the following scientific and practical conclusions were drawn:

1. Decentralized sources of financing demonstrated that the investment environment in Uzbekistan in 2024 was flexible and based on market principles. Enterprises, the population, banks, and foreign investors became active participants in the investment process.

2. Foreign direct investment and unsecured loans have experienced high growth rates, accelerating the inflow of external technological and intellectual resources into the economy.

3. The share of household savings and bank loans indicates the development of the process of economic democratization and the increasing activity of the private sector.

4. Such a diversified financing system serves to ensure sustainable economic growth in Uzbekistan, increase investment security, and ensure the efficient use of capital resources.

The following proposals were developed during the research:

1. Making tax incentives more flexible in encouraging foreign investment in EITs– linking the duration of benefits to the amount of capital invested by the investor and the level of technological innovation, giving preference to production with high added value.

2. Ensuring stability in tax policy– limiting frequent changes in tax legislation for foreign investors and introducing a system of long-term fiscal guarantees.

3. Expanding public-private partnership (PPP) mechanisms– Implementation of joint projects with the participation of international financial institutions and private capital to develop the infrastructure of the EIH.

4. Diversification of investment flows– attracting foreign capital not only to traditional sectors, but also to promising sectors such as information technology, renewable energy, and pharmaceuticals.

5. Introduction of digital technologies in tax administration– simplifying the processes of filing tax returns, using benefits, and obtaining permits for investors through fully online platforms.

6. Development of a regional investment marketing strategy– systematic promotion of the investment potential of each EIH in foreign markets and

international forums, including the preparation of marketing materials and guidelines for investors in foreign languages.

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